

Tips for Buying How to secure home financing the smart way



Three elements are crucial to the purchase of a home—the down payment, closing costs, and qualifying for a mortgage. Here is a quick rundown of what you should know:

Down payment

Typically, conventional lenders will require a 20% down payment, although you may be able to find loans with down payments of as little as 5% (perhaps less in some cases). With down payments less than 20%, you likely will have to pay private mortgage insurance, which guarantees the lender will be repaid in case of default.

Mortgages insured by the Federal Housing Administration (FHA) and those available to U.S. veterans often require very low down payments. Ask your lender if you can qualify for one of these loans.

If you are having trouble coming up with the down payment, here are some tips to ease the burden:

- Consider down payment assistance programs. The Texas Department of Housing & Community Affairs offers down payment assistance as well as low-cost mortgages for first-time buyers. For more information, visit MyFirstTexasHome.org.
- Start early. Begin saving for a down payment as soon as possible. After a few years, it adds up.
- Ask for a My Community Mortgage. A Fannie Mae product, the My Community Mortgage offers many advantages for buyers, including the ability to use non-traditional forms of credit for loan qualification purposes.
- Convert stocks. Consider selling stock for the down payment. The housing market often is a better investment anyway.
- Sell an asset. If you have “toys” such as a boat, extra car, or other asset, consider selling it for the down payment.
- Borrow from relatives. Today lenders will allow you to use money borrowed from relatives as the down payment. In many cases the relatives do not need to co-sign the mortgage. Check with your lender for restrictions.

Closing costs

No matter what home you buy, there will be closing costs. These can include: discount points, title insurance, escrow fees, attorney fees, termite report, recording fees, appraisal fees, document preparation fees, notary fees, and a loan underwriting fee. Usually these are due in cash, but sometimes they can be folded into the mortgage.

Loan qualification

The size of the mortgage you qualify for is based mainly on the interest rate offered and your income. The higher the interest rate, the higher the monthly payment. And, the higher the monthly payment, the more income you will need to qualify for the mortgage.

Contacting a lender before you're actually ready to make an offer on a house can be a good idea. This head start gives you a chance to work out any problems that may arise without the pressure of contract deadlines.

For more information about Texas REALTORS® or buying or selling a home in Texas, visit TexasRealEstate.com.